

Message Text

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SUBJECT: EUROPEAN COUNCIL, JUNE 29-30, 1977: ECONOMIC
DISCUSSIONS

REF: (A) BRUSSELS 6542; (B) BRUSSELS 6667; (C) BRUSSELS
6879

SUMMARY: ECONOMIC ISSUES WERE THE CENTERPIECE OF
DISCUSSIONS DURING THE JUNE 29-30 EUROPEAN COUNCIL MEET-
ING IN LONDON. AT THE CONCLUSION OF THE SUMMIT, THE
HEADS OF GOVERNMENT ISSUED A STATEMENT ON GROWTH, INFLA-
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TION, AND EMPLOYMENT IN THE COMMUNITY, FULL TEXT OF WHICH
IS CONTAINED IN PARAS 2 THROUGH 12 BELOW. THIS MESSAGE
ALSO INCLUDES SUMMARY OF EC COMMISSION AND MEMBER STATE
POSITIONS TAKEN DURING THE EUROPEAN COUNCIL DEBATE. END
SUMMARY.

1. BEGIN TEXT OF EUROPEAN COUNCIL STATEMENT ON GROWTH,

INFLATION, AND EMPLOYMENT:

2. THE EUROPEAN COUNCIL REVIEWED PROGRESS AND ON-GOING WORK ON THE RANGE OF PROBLEMS WHICH IT HAD IDENTIFIED AT ITS MARCH MEETING IN ROME. INCLUDING BOTH ACTION WITHIN THE COMMUNITY ITSELF AND CO-OPERATION AT WIDER INTERNATIONAL LEVELS.

3. AT ITS MARCH MEETING THE EUROPEAN COUNCIL AGREED TO SEEK ACTION ON SPECIFIC LABOUR MARKET PROBLEMS PARTICULARLY FOR YOUNG PEOPLE AND WOMEN; TO ENCOURAGE HIGH LEVELS OF INVESTMENT IN MEMBER STATES; AND TO HALT DIVERGENCE AND PROMOTE CONVERGENCE IN THEIR ECONOMIC PERFORMANCE. THE EUROPEAN COUNCIL NOTED THE ACTION TAKEN WITHIN THE COMMUNITY ON ALL THESE POINTS.

4. THE EUROPEAN COUNCIL WELCOMED THE AGREEMENT REACHED ON 28 JUNE BY THE COUNCIL (SOCIAL AFFAIRS) TO IMPROVE THE EFFECTIVE OPERATION OF THE EUROPEAN SOCIAL FUND. IT NOTED THAT THE COMMISSION WOULD SOON BE SUBMITTING PROPOSALS TO USE THE FUND FOR A SCHEME DIRECTED TO THE EMPLOYMENT PROBLEMS OF WOMEN.

5. THE EUROPEAN COUNCIL ATTACHES PARTICULAR IMPORTANCE TO THE PROBLEM OF STRUCTURAL UNEMPLOYMENT AMONG THE YOUNG. IT RECEIVED A REPORT FROM THE COMMISSION ON LIMITED OFFICIAL USE

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COMMUNITY ACTION IN THE FIELD OF THE LABOUR MARKET AND HAS CALLED ON IT TO CONTINUE ITS WORK ON THE PROBLEM. THE COUNCIL (SOCIAL AFFAIRS) WAS ASKED TO MEET IN EARLY AUTUMN TO CONSIDER, IN THE LIGHT OF THIS WORK AND OF THE RESULTS OF NATIONAL MEASURES, WHAT COMMON ACTION MIGHT BE NECESSARY.

6. THE EUROPEAN COUNCIL NOTED WITH SATISFACTION THE SPIRIT OF COOPERATION BETWEEN GOVERNMENTS, INSTITUTIONS AND THE SOCIAL PARTNERS WHICH MARKED THE WORK OF THE TRIPARTITE CONFERENCE OF 27 JUNE. THE COUNCIL HOPES THAT THE JOINT STUDY PROGRAMME, ANNOUNCED AT THE END OF THE CONFERENCE, MAY LEAD TO A STRENGTHENING OF THIS SPIRIT OF COOPERATION.

7. THE EUROPEAN COUNCIL NOTED THE RESPONSES OF THE COMMISSION AND THE BOARD OF GOVERNORS OF THE EIB TO THE INVITATION WHICH IT MADE TO THEM ON 26 MARCH 1977 TO SUGGEST WAYS IN WHICH THE COMMUNITY MIGHT INCREASE AND INTENSIFY ITS ACTIVITIES TO PROMOTE CONVERGENCE, INVESTMENT AND EMPLOYMENT IN THE COMMUNITY.

8. THE EUROPEAN COUNCIL INVITED THE BOARD OF GOVERNORS OF THE EIB TO IMPLEMENT ITS PROPOSALS.

9. THE EUROPEAN COUNCIL ALSO INVITED THE COUNCIL (MINISTERS OF FINANCE AND ECONOMIC AFFAIRS) TO EXAMINE AS EARLY

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AS POSSIBLE THE COMMISSION'S COMMUNICATION ON INVESTMENT AND BORROWING IN THE COMMUNITY.

10. THE EUROPEAN COUNCIL AFFIRMED THE NECESSITY FOR THE MEMBER STATES TO ARRIVE AT A COMMON ENERGY POLICY.

11. THE EUROPEAN COUNCIL REAFFIRMED THE IMPORTANCE OF COOPERATIVE EFFORTS BY INDUSTRIAL COUNTRIES TO SEEK A SUSTAINED EXPANSION OF WORLD ECONOMIC ACTIVITY, CONSISTENT WITH FURTHER REDUCTION OF THE RATE OF INFLATION AND

THEREBY TO HELP REDUCE UNEMPLOYMENT. THE EUROPEAN COUNCIL EXPRESSED ITS DETERMINATION THAT THE COMMUNITY LIMITED OFFICIAL USE

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AND ITS MEMBER STATES SHOULD PLAY THEIR APPROPRIATE PART IN THIS WORLD-WIDE COOPERATION. IN THIS CONNECTION THE EUROPEAN COUNCIL NOTED THE COMMITMENTS MADE BY SOME HEADS OF GOVERNMENT TO THE ACHIEVEMENT OF SPECIFIED GROWTH TARGETS IN 1977 AND TO THE REVIEW OF POLICIES AND PROGRESS TO THIS END. IT ALSO NOTED THAT OTHER GOVERNMENTS HAVE EXPRESSED THEIR INTENTION OF CONTINUING THEIR STABILIZATION POLICIES. THE EUROPEAN COUNCIL WAS CONCERNED THAT ADEQUATE INTERNATIONAL FINANCING SHOULD BE AVAILABLE TO SUPPORT THIS EXPANSION OF WORLD ECONOMIC ACTIVITY, AND EXPRESSED THE HOPE THAT THE EFFORTS BEING MADE TO THIS END IN THE IMF AND ELSEWHERE WOULD BE SUCCESSFUL.

12. THE EUROPEAN COUNCIL EXPRESSED ITS CONCERN AT THE EMPLOYMENT SITUATION IN CERTAIN SECTORS ADVERSELY AFFECTED BY STRUCTURAL CHANGES IN THE ECONOMY. IT INVITED THE COMMISSION TO CONTINUE STUDYING ALL FACTORS WHETHER STRUCTURAL OR OTHERWISE AND TO INDICATE THE CONCLUSIONS WHICH IT DRAWS FROM THESE STUDIES. THE EUROPEAN COUNCIL ALSO CONCERNED ITSELF WITH THE EFFECTS ON THE EMPLOYMENT SITUATION OF THE OPEN AND LIBERAL COMMERCIAL POLICY OF THE COMMUNITY TO WHICH THE COMMUNITY, AS THE WORLD'S LARGEST IMPORTER AND EXPORTER, REMAINS STRONGLY ATTACHED. END TEXT.

13. TRADE: THE LANGUAGE ON TRADE IN LAST PARAGRAPH OF THE EUROPEAN COUNCIL STATEMENT (PARA 12 ABOVE) WAS APPARENTLY THE RESULT OF COMPROMISE BETWEEN THE FRENCH, WHO WANTED LANGUAGE CONCERNING THE EC TAKING RESTRICTIVE MEASURES IN SENSITIVE AREAS, AND THE OTHER MEMBER STATES. UK PRIME MINISTER CALLAGHAN (THE COUNCIL PRESIDENT) NOTED AT HIS PRESS CONFERENCE THAT "WE ARE ALL AWARE THAT THERE ARE SENSITIVE AREAS IN OUR ECONOMIES WHERE STRICT APPLI- LIMITED OFFICIAL USE

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CATION OF AN OPEN AND LIBERAL COMMERCIAL POLICY CAN BRING RESULTS WHICH WERE REALLY NOT ANTICIPATED IN A PERIOD OF WORLD RECESSION." HE IDENTIFIED TEXTILES, SHIP BUILDING, SPECIALTY STEELS, FOOTWEAR, AND ELECTRONICS AS EXAMPLES WHICH THE COMMISSION HAS BEEN ASKED TO STUDY.

14. GENERAL ECONOMIC SITUATION: DISCUSSION CENTERED

INITIALLY ON A BRIEF COMMISSION PAPER ON THE GENERAL ECONOMIC SITUATION, THE MAJOR CONCLUSIONS OF WHICH WERE OUTLINED TO THE PRESS BY A COMMISSION SPOKESMAN: GROWTH FOR 1977 IN THE EC IS EXPECTED TO REACH 3 PERCENT, INSTEAD OF THE 4 PERCENT FORECAST, AND COMPARED TO 4.5 PERCENT IN 1976; UNEMPLOYMENT NOW STANDS AT 5.4 MILLION, CORRESPONDING TO 5.1 PERCENT OF THE WORKING AGE POPULATION; INFLATION HAS FALLEN FROM 10 PERCENT IN 1976 TO 9.5 PERCENT IN 1977; THERE REMAINS A GENERAL RELUCTANCE TOWARD INVESTMENT.

15. VERY FEW NATIONAL POSITIONS EMERGED IN PRESS BRIEFINGS. AN FRG FOREIGN MINISTRY SPOKESMAN SAID THAT CHANCELLOR SCHMIDT WAS NOT ASKED TO REFLATE AND INDICATED THAT, IN A REFERENCE TO THE GERMAN ECONOMIC SITUATION, SCHMIDT TOLD HIS COLLEAGUES THAT CURRENT ECONOMIC PROBLEMS WERE NOT JUST A QUESTION OF MONEY SUPPLY BUT OF CONVINCING PEOPLE TO UTILIZE WHAT THEY HAVE. IRISH PRIME MINISTER COSGRAVE, ON THE OTHER HAND, TOLD THE PRESS HE HAD MADE THE POINT THAT, WITH CAPACITY BEING UNDERUSED IN MANY OF THE MAJOR COUNTRIES, THERE IS SCOPE FOR REFLATION, WITHOUT THE DANGER OF INFLATION. THIS REFLATION WOULD, IN TURN, GENERATE EMPLOYMENT WHERE IT IS MOST NEEDED. COSGRAVE SAID HE USED THE EXAMPLE OF THE IRISH ECONOMY TO SHOW THAT INCREASED PRODUCTION, IN PRESENT CONDITIONS, COULD, IN FACT, REDUCE UNIT COSTS. COSGRAVE SAID HE HAD EMPHASIZED THAT THE LACK OF EC PROGRESS IN EMPLOYMENT AND INVESTMENT CALL INTO QUESTION NOT MERELY THE SENSE OF URGENCY BEING APPLIED TO THE PROBLEMS, BUT ALSO THE VERY RELEVANCE OF COMMUNITY MEDIUM-TERM STRATEGY. LIMITED OFFICIAL USE

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16. COMMISSION PRESIDENT JENKINS TOLD REPORTERS THAT ONE

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FEATURE THAT HAD IMPROVED EC-WIDE HAS BEEN BALANCE OF
PAYMENTS. ITALIAN PREMIER ANDREOTTI ECHOED THIS VIEW
DURING THE MEETING. ACCORDING TO PERM REP SOURCES,
ANDREOTTI ANNOUNCED THAT ITALY WILL REACH BALANCE OF PAY-
MENTS EQUILIBRIUM FOR THE FIRST TIME THIS YEAR IN JUNE,
1977. IN MAY, THE ITALIAN DEFICIT WAS REDUCED TO 140
BILLION LIRA FROM 932 BILLION IN MARCH.

17. ANDREOTTI SAID ITALY'S WORST BALANCE OF PAYMENTS
PROBLEMS ARE OVER. HOWEVER, TOGETHER WITH THE IMPROVE-
MENT OF THE BOP SITUATION, THERE WAS A SLOWING DOWN OF
INDUSTRIAL PRODUCTION AND A WORSENING OF THE UNEMPLOYMENT
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SITUATION, WITH NO END TO THESE PARTICULAR PROBLEMS YET
IN SIGHT.

18. UNEMPLOYMENT: THE COMMISSION SUBMITTED A PAPER ON
EMPLOYMENT OF YOUNG PEOPLE AND WOMEN, WHICH, ACCORDING TO
A COMMISSION SPOKESMAN, PROPOSED PAYMENT OF PREMIUMS TO
EMPLOYERS FOR HIRING AND INCREASED EDUCATIONAL AND TRAIN-
ING PROSPECTS FOR YOUTH. THE COMMISSION INDICATED ITS
INTENT TO SUBMIT FURTHER PROPOSALS ON THE USE OF THE
SOCIAL FUND TO COMBAT UNEMPLOYMENT AMONG WOMEN. THE
COMMISSION SPOKESMAN INDICATED THAT THE HEADS OF GOVERN-
MENT DID NOT DISCUSS THE SPECIFICS OF THESE PROPOSALS.

19. CALLAGHAN TOLD REPORTERS THAT THE MEMBER STATES ARE

NOW MORE INCLINED TO AGREE THAT UNEMPLOYMENT IS THE RESULT OF STRUCTURAL PROBLEMS AND NOT DUE JUST TO THE CYCLICAL NATURE OF RECESSION. CALLAGHAN DREW ATTENTION AT HIS PRESS CONFERENCE TO THE UK'S YOUTH EMPLOYMENT SCHEME, WHICH HE TERMED "BY FAR THE BIGGEST AND MOST IMAGINATIVE" YET PRODUCED IN THIS FIELD AND "A LONG STEP TOWARD OUR AIM OF ENSURING THAT EVERY YOUNG PERSON BETWEEN 16 AND 19 EITHER HAS A JOB OR FURTHER EDUCATION."

20. ACCORDING TO A FRENCH SPOKESMAN (ARNAUD), PRESIDENT GISCARD D'ESTAING PROPOSED HIS OWN FORMULA FOR A COMMUNITY APPROACH TO UNEMPLOYMENT PROBLEMS. GISCARD NOTED THAT INDIVIDUAL MEASURES TAKEN BY THE MEMBER STATES TO CREATE JOBS ARE RATHER SIMILAR, BUT, BECAUSE THE NINE CONSTITUTE A COMMUNITY, THEY HAVE TO ANSWER THIS CHALLENGE TOGETHER. HE PROPOSED THAT THE NINE MINISTERS RESPONSIBLE FOR EMPLOYMENT SHOULD MEET AT THE BEGINNING OF SEPTEMBER, 1977 TO COMPARE THE MEASURES WHICH HAVE BEEN TAKEN TO IMPROVE EMPLOYMENT AND INFORMATION AND TRAINING FOR YOUNG LIMITED OFFICIAL USE

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PEOPLE. HE SUGGESTED THEY SHOULD ALSO MEASURE RESULTS OF NATIONAL MEASURES AND DECIDE ON SUPPLEMENTARY ACTIONS TO BE TAKEN IN COMMON. ARNAUD SAID REACTION TO GISCARD'S SUGGESTION WAS "QUITE POSITIVE" BUT THAT NO FORMAL DECISION HAD BEEN TAKEN.

21. SOCIAL FUND: ACCORDING TO COMMISSION AND PERM REP SOURCES, DISCUSSION OF THE EC SOCIAL FUND CENTERED ON WHETHER OR NOT IT SHOULD BE INCREASED OR SIMPLY BETTER UTILIZED. REFERRING TO THE JUNE 28 SOCIAL COUNCIL MEETING, JENKINS TOLD REPORTERS THE COMMISSION HAD PROPOSED BOTH AN 11 PERCENT INCREASE IN THE FUND AND A SUBSTANTIAL ACCELERATION OF DISBURSEMENTS TO ELIMINATE THE EXISTING BACKLOG, WHICH HE TERMED THE REAL PROBLEM CONNECTED WITH THE FUND'S ACTIVITIES. THE RESULT OF THE SOCIAL COUNCIL'S DECISION, SAID JENKINS, WOULD BE A LARGE INCREASE IN DISBURSEMENTS NEXT YEAR, THOUGH ONLY A LIMITED INCREASE IN COMMITMENTS. SCHMIDT CAME OUT STRONGLY DURING THE MEETING AGAINST ANY FURTHER EXPANSION OF THE FUND, INSISTING THAT IT WAS MORE IMPORTANT TO MAKE DISBURSEMENT METHODS MORE EFFICIENT.

22. COMMUNITY BORROWING SCHEME/EIB CAPITAL INCREASE: ALTHOUGH THE HEADS OF GOVERNMENT TOOK NO DECISIONS ON THE COMMISSION'S PROPOSAL FOR A COMMUNITY BORROWING SCHEME, DIRECTING INSTEAD THAT THE FINANCE MINISTERS SHOULD CONTINUE THEIR EXAMINATION OF THE DOSSIER, NATIONAL VIEWS ON THE PROPOSAL WERE DELINEATED IN SOMEWHAT GREATER DETAIL DURING THE MEETING THAN HAD BEEN THE CASE DURING THE JUNE

20 FINANCE COUNCIL (BRUSSELS 6542). ACCORDING TO COM-
MISSION AND PERM REP SOURCES, THE GERMANS AND FRENCH RE-
MAIN STRONGLY OPPOSED AND OTHER MEMBER STATES LARGELY QUAL-
IFIED IN THEIR SUPPORT. SCHMIDT TOLD REPORTS THAT THERE
WAS "TREMENDOUS RELUCTANCE" TO ACCEPT THE COMMISSION PRO-
POSAL, THOUGH SOME MEMBER STATES MIGHT AGREE TO A NEW
LOAN FACILITY TIED TO CONCRETE PROJECTS. A COMMISSION
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SPOKESMAN TOLD REPORTERS THAT THE PROPOSAL HAD BEEN
SUPPORTED TO VARYING DEGREES BY THE UK, IRELAND, DENMARK,
BELGIUM, ITALY, AND LUXEMBOURG, WHILE THE NETHERLANDS

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COULD ACCEPT ONLY A SCHEME BASED ON MORE PRECISELY DEFINED SPECIFIC PROJECT COMMITMENTS. COSGRAVE TOLD REPORTERS THAT, ALTHOUGH HE HAD WELCOMED THE PROPOSAL AS A USEFUL STEP, HE HAD EMPHASIZED THAT ITS SCALE, IN RELATION TO THE EC'S INVESTMENT NEEDS, WAS TOO SMALL. HE ALSO EXPRESSED CONCERN DURING THE MEETING THAT, ALTHOUGH JENKINS HAD INDICATED DURING THE MARCH EUROPEAN COUNCIL IN ROME THAT THIS NEW SCHEME WOULD BE USED IN PARTICULAR TO ASSIST THE WEAKER ECONOMIES OF THE EC, THAT EMPHASIS WAS MISSING FROM THE FINAL PROPOSAL. AT THE SAME PRESS CONFERENCE, IRISH FOREIGN MINISTER FITZGERALD EXPRESSED HIS VIEW THAT THE FINANCE MINISTERS' STUDY OF THE COMMISSION LIMITED OFFICIAL USE

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PROPOSAL WAS LIKELY TO BE A PRO FORMA EXERCISE AND THAT THE SCHEME WAS, IN FACT, DEAD.

23. THE HEADS OF GOVERNMENT WERE MORE RECEPTIVE TO THE EUROPEAN INVESTMENT BANK'S PROPOSAL FOR A CAPITAL INCREASE TO SUPPORT A HIGHER LEVEL OF LENDING (BRUSSELS 6667), ASKING THE EIB BOARD OF GOVERNORS (THE EC FINANCE MINISTERS) TO PROCEED WITH IMPLEMENTATION OF THESE PLANS.

24. JENKINS, HOWEVER, GAVE NO SIGN OF WILLINGNESS TO ABANDON THE COMMUNITY BORROWING PROPOSAL. ACCORDING TO A COMMISSION SPOKESMAN, JENKINS STRESSED DURING THE MEETING THAT THE PROPOSAL WOULD NOT BE A BURDEN ON THE EC BUDGET AND THAT MEMBER STATES WOULD BE ASKED ONLY TO GUARANTEE LOANS, NOT TO PUT MONEY DOWN. JENKINS LATER TOLD REPORTERS THAT HE WELCOMED THE EUROPEAN COUNCIL'S DECISIONS RELATING TO THE EIB BUT STRESSED THAT THE COMMISSION'S PROPOSAL COVERS GAPS WHICH CANNOT BE COVERED BY THE EIB OR OTHER INSTITUTIONS AND THAT THE COMMISSION WILL PURSUE IT "VERY ACTIVELY" IN THE FINANCE COUNCIL, BACKING IT UP WITH "PRACTICAL ILLUSTRATIONS." A COMMISSION SPOKESMAN TOLD THE PRESS THAT THE COMMISSION'S VIEW IS THAT THE BORROWING SCHEME PROPOSAL AND EIB ACTIVITIES SHOULD NOT BE JUDGED ON THE BASIS OF THE SAME CRITERIA: THE BANK PLAYS A PASSIVE ROLE, REACTING TO ECONOMIC FORCES, WHILE THE COMMISSION SCHEME WOULD BE BASED ON AN ACTIVIST ROLE. HE ADDED THAT THE EIB, EURATOM, ECSC, AND THE EC SOCIAL AND REGIONAL FUNDS ALL OPERATE UNDER LIMITATIONS, CITING AS AN EXAMPLE THE BANK'S INABILITY TO INCREASE LOAN ACTIVITY WITHOUT A CAPITAL INCREASE. THE COMMISSION PROPOSAL, HE SAID, COULD ADJUST TO LARGER PROJECT NUMBERS WITHOUT CAPITAL INCREASES EACH TIME.

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